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Baseball or Bean Counting? Study Shows Athletes Receive Unequal Tax Treatment

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The University of Dayton

News Release

April 11, 1994
Contact: Teri Rizvi

**BASEBALL OR BEAN COUNTING?
STUDY SHOWS ATHLETES RECEIVE UNEQUAL TAX TREATMENT**

DAYTON, Ohio -- If you had your choice between collecting \$1 million annually for scooping up ground balls or climbing slowly up the ladder to become the chief financial officer of a large, multinational corporation, which would you choose?

Many of us would be tempted to go for the big bucks and live out the dream of a career in the major leagues, but that may not be the wisest financial decision, according to a new University of Dayton study. President Clinton's tax reform is taking an inequitable bite out of the paychecks of professional athletes, according to Lawrence Hadley, associate professor of economics and finance, and Linda Hadley, lecturer in accounting. Their findings suggest that it may make better tax sense to start your career as an accountant in private industry.

"Few people have sympathy for the financial complaints of young men who are paid millions of dollars to play games," said Larry Hadley, who has published several studies on baseball player salaries. "However, professional athletes do have unique tax problems because the bulk of their lifetime earned income is compressed into approximately one decade."

Clinton's tax reform adds two rate brackets to the top 1992 tax rate of 31 percent. Beginning in 1993, the marginal tax rate on income over \$140,000 is 36 percent. In addition, income exceeding \$250,000 is subject to a 10 percent surtax, which would create a top marginal tax rate of 39.6 percent.

Beginning in 1993, the lifetime income of a baseball player averaging \$1 million annually will be taxed \$389,808 more than an accountant's lifetime income "simply because

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the baseball player's income falls early in his life cycle," Hadley said.

For an everyday major league baseball player earning \$1 million annually, Hadley estimates that his federal income tax will jump nearly \$60,000 from \$264,572 to \$323,758. Over his professional career, his after-tax earnings will be nearly \$200,000 less than an accountant who retires at 65 after a successful 40-year career.

How does all this compute? The researchers created lifetime income profiles for two hypothetical workers. The first is a successful baseball player who plays ball in college and spends three years in the minor leagues before breaking into the big leagues at the age of 25. The second worker earns a B.S. in accounting, an MBA and a CPA, begins his career as an accountant in private industry at age 25 and retires at age 65 as CFO of a large multinational corporation. Both are married, have two children and file joint income tax returns.

What the profiles don't include are pension contributions or other fringe benefits. In addition, the researchers ignore any additional income the ballplayer might earn after his playing career or consulting fees the financial executive could command in retirement. All salaries in the study are in today's dollars.

If both workers earn approximately \$7.6 million during their careers, the ballplayer will end up paying nearly \$400,000 more in taxes.

"Professional athletes can legitimately complain that the 1993 tax reform exacerbates their unequal tax treatment," Hadley said. "This unequal treatment is caused by something over which athletes have no control--the compression of their lifetime income."

The study suggests that the Internal Revenue Service reinstate an income-averaging formula to create more equity in the tax law.

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